

## Message Text

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70/41

ACTION EB-03

INFO OCT-01 SS-14 ISO-00 EUR-10 SSO-00 NSC-07 NSCE-00

INRE-00 INR-11 NEA-06 EA-13 CIAE-00 NSAE-00 RSC-01

L-02 OMB-01 TRSE-00 DRC-01 CIEP-01 PM-03 FEA-01

DODE-00 EURE-00 NEAE-00 /075 W  
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O 121731Z JUL 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 2064

INFO AMEMBASSY KUWAIT IMMEDIATE

AMEMBASSY JIDDA IMMEDIATE

AMEMBASSY ABU DHABI IMMEDIATE

AMEMBASSY BEIRUT IMMEDIATE

AMEMBASSY CAIRO IMMEDIATE

AMEMBASSY THE HAGUE IMMEDIATE

AMEMBASSY TEHRAN IMMEDIATE

AMEMBASSY TOKYO IMMEDIATE

C O N F I D E N T I A L LONDON 8783

LIMDIS

C O R R E C T E D C O P Y -- MRN 8783 VICE 8883 --

E.O. 11652: XGDS-1

TAGS: ENRG

SUBJECT: KUWAIT BUYBACK NEGOTIATIONS

1. HMG INFORMS US THAT DURING JULY 11 CAIRO MEETING BETWEEN STEEL (BP) AND LEE (GULF) WITH ATIGI, GULF AGREED TO ACCEPT UNSPECIFIED QUANTITY OF BUY BACK CRUDE AT 95 PER CENT OF POSTED PRICE. BP DECLINED TO ACCEPT 95 PER CENT FIGURE. ATIGI HAS DEMANDED ANSWERS BY JULY 16 AS TO WHAT QUANTITIES GULF IS PREPARED TO BUY AT 95 PER CENT PRICE AND WHETHER BP WILL ACCEPT 95 PER CENT DEAL. ACCORDING TO WILLIAMS (DEPUTY SECRETARY, DEPARTMENT OF CONFIDENTIAL

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ENERGY), IF USG IS PREPARED TO PUT PRESSURE ON GULF TO

BACK AWAY FROM 95 PER CENT FIGURE, HMG WILL INSTRUCT BP TO STAND FIRM. ON OTHER HAND, IF USG IS NOT SUCCESSFUL IN PERSUADING GULF, HMG WILL PROBABLY TELL BP TO EXERCISE ITS OWN BEST COMMERCIAL JUDGMENT BUT BUY AS LITTLE CRUDE AS POSSIBLE AT 95 PER CENT. ACTION REQUESTED: ADVISE EMBASSY BY JULY 15 WHAT ACTION USG HAS TAKEN VIS A VIS GULF.

2. ACCORDING TO WILLIAMS, ATIGI EXPRESSED DISPLEASURE TO STEEL AND LEE THAT BP AND GULF HAD NOT SUBMITTED AUCTION BIDS. HE TOLD COMPANY REPRESENTATIVES THAT IF NO BUY BACK CRUDE WAS PURCHASED FOR 3RD QUARTER, THERE WOULD BE NOMORE BUYBACK OIL FOR BP AND GULF THEREAFTER. ATIGI REPORTEDLY ALLEGED HE HAD ALREADY DISPOSED OF HALF THE 1.25 M/B/D AUCTION CRUDE AT 95 PER CENT, IMPLICATION BEING BP AND GULF SHOULD PURCHASE BALANCE.

3. WILLIAMS NOTED REPORTS FROM OTHER INDUSTRY SOURCES THAT GULF BELIEVES IT HAS NOTHING TO LOSE BY ACCEPTING 95 PER CENT DEAL. FIRST, GULF SELLS SUBSTANTIAL PORTION OF ITS KUWAITI CRUDE AT COST PLUS BASIS, AND HAS FEW OTHER FOREIGN INTERESTS TO BE CONCERNED ABOUT. MOREOVER, GULF ALLEGEDLY SEES SOME RISK IN ARAMCO PARTNERS OBTAINING CHEAPER CRUDE PRICE FROM SAUDIS AND THUS IS MOVING TO AFFECT - ADVERSELY FROM STANDPOINT OF ARAMCO PARTNERS AND CONSUMERS - TO INSURE THAT SAUDIS ARE COMPELLED TO SEEK HIGHER PRICE ON BASIS OF KUWAITI ARRANGEMENTS.

4. WILLIAMS ALSO NOTES CREDIT PERIOD FOR COMPANIES' PAYMENTS TO KUWAIT IS TO BE REDUCED FROM 75 DAYS TO 45 DAYS, THEREBY ADDING AT \$10.95 A BARREL ANOTHER 10 CENTS TO COST OF CRUDE PURCHASED BY BP AND GULF.

5. IN DISCUSSING POSSIBLE ALTERNATIVE COURSES OF ACTION WILLIAMS SUGGESTED THAT IN EVENT 95 PER CENT DEAL SEEMS INEVITABLE, IT MIGHT BE WORTHWHILE FOR BP AND GULF TO OFFER KUWAITIS AN OPTION OF SCRAPPING EXISTING ARRANGEMENTS ENTIRELY. COMPANIES MIGHT SUGGEST GIVING UP THEIR RIGHTS TO EQUITY OIL - RIGHTS WHICH PROBABLY WILL DISAPPEAR SOON IN ANY EVENT - AND IN RETURN OBTAIN SLIGHTLY

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LOWER PRICE. THIS WOULD AT LEAST PREVENT 95 PER CENT FIGURE FROM BECOMING NEW "HALLOWED" BUYBACK PRICE. WILLIAMS VOLUNTEERED THAT STEEL OF BP BELIEVES IT IS TOO LATE TO ATTEMPT THIS ALTERNATIVE.

6. IN RESPONSE TO OUR QUERY, WILLIAMS AGREED BROADER ARRANGEMENT MODELLED ALONG LINES OF LIBYAN "SAFETY NET" CONCEPT DESERVED CONSIDERATION IF TIME WOULD PERMIT.

COMPANIES SUCH AS BP AND GULF MIGHT BE OFFERED GUARANTEES THEY COULD PURCHASE QUANTITIES OF NON-KUWAITI CRUDE FROM OTHER MAJORS, SUCH AS ARAMCO PARTNERS, IN EVENT THEY "LOST" KUWAITI BUYBACK CRUDE AS CONSEQUENCE OF THEIR WILLINGNESS TO STAND FIRM AGAINST 95 PER CENT DEMAND.

SOHM

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## Message Attributes

**Automatic Decaptioning:** Z  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** PETROLEUM, PROPOSALS (BID), NEGOTIATIONS, PRICES, MEETINGS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 12 JUL 1974  
**Decaption Date:** 28 MAY 2004  
**Decaption Note:** 25 YEAR REVIEW  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** martinml  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1974LONDON08783  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** X1  
**Errors:** N/A  
**Film Number:** D740192-0195  
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**Handling Restrictions:** n/a  
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**Legacy Key:** link1974/newtext/t19740754/aaaabual.tel  
**Line Count:** 122  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EB  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** LIMDIS  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:**  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** LIMDIS  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** martinml  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 20 JUL 2001  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <20-Jul-2001 by kellerpr>; APPROVED <26 FEB 2003 by martinml>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** KUWAIT BUYBACK NEGOTIATIONS  
**TAGS:** ENRG, GULF OIL CORP, (LEE), (STEEL)  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005